

**TO: INFRASTRUCTURAL SERVICES COMMITTEE**

**FROM: ERIN MOOGAN - GROUP MANAGER,  
INFRASTRUCTURE**

**APPROVED BY: CLARE HADLEY - CHIEF EXECUTIVE**

**MEETING DATE: TUESDAY 7 SEPTEMBER 2021**

## **IN COMMITTEE**

*Reason for Exclusion:*

*Local Government Information and Meetings Act 1987 –*

- (7) *Other reasons for withholding official information:*
  - (2) (b) *Protect the information where making available of the information*
    - (i) *Would disclose a trade secret'*
    - (ii) *Would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information*
- (9) *Other reasons for withholding official information:*
  - (2) (j) *To enable the agency that holds the information to carry on negotiations with prejudice or disadvantage*

<b>RECYCLABLES ACCEPTANCE CONTRACT</b>
--

### **SUMMARY**

This report seeks approval for the Chief Executive and Group Manager, Finance and Assurance to renegotiate a 36 month extension to the existing contract with Southland DisAbility Enterprises for recycling.

Councils are responsible for promoting effective and efficient waste management and minimisation practices. The government is developing a national waste strategy which will impact on that.

An extension to the existing contract with Southland DisAbility Enterprises will allow time for Council to engage with the community, the preparation of any new contract to be informed by the national waste strategy; ensure a comprehensive business case process can be undertaken and provide for appropriate procurement and contract implementation timeframes.

### **RECOMMENDATIONS**

**That the Infrastructural Services Committee:**

- 1. Receive the report “Recyclables Acceptance Contract”.**
- 2. Approves an extension to the existing contract with Southland DisAbility Enterprises for up to 36 months provided this is within existing LTP budgets.**
- 3. Delegates authority to the Chief Executive and Group Manager Finance and Assurance to negotiate terms and conditions for a contract extension.**

4. **Request officers negotiate terms and conditions for a contract extension with Southland District Council.**
5. **Request officers report back once negotiations have been concluded.**

#### **IMPLICATIONS**

1.	<i>Has this been provided for in the Long Term Plan/Annual Plan?</i> Yes.
2.	<i>Is a budget amendment required?</i> No.
3.	<i>Is this matter significant in terms of Council's Policy on Significance?</i> No.
4.	<i>Implications in terms of other Council Strategic Documents or Council Policy?</i> No.
5.	<i>Have the views of affected or interested persons been obtained and is any further public consultation required?</i> No.

#### **BACKGROUND**

On 1 July 2020 Invercargill City Council entered into an 18 month contract for recycling services with Southland DisAbility Enterprises (SdE) following expiration of the previous contract between SdE and WasteNet Southland.

The 18 month Recyclables Acceptance Contract comes to an end on 31 December 2021.

The Recyclables Acceptance Contract is the only solid waste contract directly held by Invercargill City Council with all other solid waste services being provided through WasteNet Southland.

#### **ANALYSIS:**

#### **RESOURCE RECOVERY AND WASTE SECTOR STATE OF PLAY IN NEW ZEALAND**

In March 2021 the New Zealand Infrastructure Commission released a document summarising the Resource Recovery and Waste Sector State of Play.

It outlined that the New Zealand sector is not performing as well as international comparators noting New Zealand's municipal waste to landfill per capita as the highest in the OECD, and municipal resource recovery rate as the lowest of international comparators.

Key issues facing the sector over the next 10 years were identified as a lack of national data about the waste sector, fragmented sector governance, onshore processing capacity gaps, changing or emerging waste streams creating investment uncertainty and adaptation to climate change. All of these factors were considered potential barriers to improving community wellbeing.

It further noted that investment in resource recovery and waste solutions needs to be supported by good strategic planning, so the right approach is implemented in each community or region. Without certainty about the types and volumes of waste that is likely to be created in certain regions, the appropriate investment in resource recovery infrastructure may not occur. Or investment may occur in areas which might not be required if the quantity of waste is reduced. A full copy of the report is included for reference in Appendix 1 (A3525185).

## **CENTRAL GOVERNMENT WASTE ACTIONS**

Central government (led by Ministry for the Environment) has introduced a number of actions aimed at accelerating New Zealand's transition towards a circular economy. Initiatives of relevance to Council include:

### **a) National Waste Strategy**

A national waste strategy is under development to set the waste direction and guide investment over the coming decades. Public consultation on the draft strategy is due to be held in the second half of 2021.

The strategy will be supported by work to strengthen and update waste related legislation, including the Waste Minimisation Act 2008 and Litter Act 1979. Public consultation on possible legislative changes is also expected in the second half of 2021.

### **b) Extend and expand the government's waste disposal levy**

The Government is increasing and expanding the disposal levy from July 2021 to further encourage waste minimisation. This means it will become more expensive to dispose of waste at landfill. By 2024 there will be a levy of \$60 per tonne for all waste disposed at a municipal landfill up from \$10 per tonne at the beginning of this year.

The increasing price of emissions units under the Emissions Trading Scheme is also contributing to increasing waste disposal costs.

### **c) Phasing out hard-to-recycle and single-use plastics**

The Government is to phase out certain hard-to-recycle plastics and six single-use items over the next four years. The first of these phase out is to commence in 2022.

### **d) Work to standardise kerbside collection systems and consumer package labelling**

A recommendations report was released in 2020 identifying opportunities to standardise domestic kerbside collection of waste in New Zealand to increase consistency, reduce confusion for householders, improve material quality and reduce residual rubbish to landfill.

### **e) Implementing a New Zealand beverage container return scheme**

Container return schemes incentivise consumers and businesses to return beverage containers (e.g. bottles, cans etc) for recycling and/or refilling. Consumers get their deposit refunded when they return their empty container(s) to a designated scheme drop-off point for recycling.

The Scheme Design Working Group (SDWG) has evaluated the Project Team's final report and recommendations.

The Minister and Cabinet will consider advice from officials in the second half of 2021. If a decision to proceed with a scheme is made, public consultation would likely take place later in 2021.

**f) Product Stewardship**

Regulated product stewardship helps put responsibility for a product's life-cycle and waste management on manufacturers, importers, retailers and users rather than communities, councils, neighbourhoods and nature.

The Government has declared six priority products for regulated product stewardship under the Waste Minimisation Act and is working with stakeholders to co-design product stewardship schemes for each priority product group.

**g) Investment in Recycling Infrastructure**

The Government has committed an injection of \$124 million into waste and recycling infrastructure. The initiative is part of the COVID-19 response and recovery fund.

It aims to reduce landfill waste by investing in recycling plants, weighbridges for improved waste data collection and improved material and community resource recovery plants.

## **SECTION 17A OF THE LOCAL GOVERNMENT ACT**

Under S17A of the Local Government Act (2002) local authorities must conduct regular reviews of its activities and demonstrate they are being delivered in a manner that is cost-effective for the local authority (and therefore ultimately households and businesses). Where a review is undertaken local authorities must consider options that include, but are not limited to:

- a) in-house delivery
- b) delivery by a CCO
- c) another local authority
- d) another person or agency (for example central government, a private sector organisation or a community group).

Contract expiration is a trigger for review under section 17A.

## **CURRENT SITUATION**

In addition, there are a number of factors pertinent to the Invercargill situation.

- a) Invercargill, through WasteNet has a separate kerbside collection contract which does not expire until 30 June 2027. The landfill contract is also held through WasteNet.
- b) Invercargill currently co-mingles recyclables by collecting all items within one bin. It is recognised nationally that glass co-mingled with other recycling has a detrimental impact on the quality (and marketability) of other recyclables. The most appropriate solution would be for Council to align its kerbside collection and recyclables acceptance contracts. Separate collection would require a significant investment in new infrastructure.

- c) The current contract with Southland DisAbility Enterprises has a social good component in the price. Council is about to engage on a procurement policy, which will recognise social procurement.
- d) All solid waste contracts now sit with a single team responsible for operational infrastructure contracts. As the new team is still coming up to speed with the solid waste business and the contractor is operating under a particularly short term contract we are not yet in a position to compare how this partnership is performing relative to other ICC contracts. A much clearer picture of performance is expected to be developed over the next 12-18 months.

## **BUSINESS CASE APPROACH**

The Better Business Case framework is advocated by the NZ Treasury for use by agencies to secure government funding and to ensure they are making the right decisions for infrastructure investments and services.

Waste matters and recycle processing has been a controversial issue for Invercargill in the past. It is important that elected members, the community and staff are clear and aligned on exactly what outcomes we want to achieve from our broader waste services and what services we want to purchase prior to the development of any new long term contract.

We also want to ensure our decision making process is sufficiently robust to put the region in the best possible position to secure central government investment in new infrastructure particularly that associated with resource recovery and onshore processing of recyclable materials. Such investment would improve waste minimisation outcomes for the region as well as have the potential to bring economic diversity and job creation to the region.

The Better Business Case framework provides a clear process for decision makers and the community to set the direction of the project or activity. This is important in the waste management sector where it is useful to separate desired benefits (or outcomes) from technical solutions to deliver those benefits. The community and those in a governance role (elected members) are well placed to help define benefits or outcomes. Technical specialists - council staff, advisers and suppliers are best placed to identify and evaluate technical options such as technology, commercial/contracting models and risks associated with various options.

## **MĀORI VIEWS ON WASTE AND RECYCLING**

The Māori view of resource recovery and waste is consistent with the principles of a circular economy. As articulated by WasteMINZ “He tirohanga Māori i te para me te mahi hangarua (Māori views on waste and recycling) emphasise whakapapa (genealogical) connections between humans and the natural world.

The respect for natural resources and the materials made from them is demonstrated by maintaining their value for as long as possible before they reach the end of their life, at which point they are disposed of in a way that causes the least harm to Papatūānuku. This precedes the concept of a circular economy.

There has been no engagement with local iwi on this matter at this time.

## FINANCIALS

Currently the fixed cost of this contract is \$1.6 million (without the additional cost of load contamination); this equates to 12.8% of the budgeted operating cost of the Solid Waste Management Activity for 2021/22. The contract represents 2.7% of Council's total rates for 2021/2022 and 2.8% of the 2020/2021 rates revenue. More analysis is needed to understand how ICC's cost structure compares with districts of similar volumes, noting that each district experiences different factors.

Council has changed its approach to community wellbeing support, and has consolidated these costs into one area to provide transparency to the public. The \$250,000 social good component of this contract is not currently reported as part of Council's contribution to community wellbeing. Council may wish to consider including this as a wellbeing investment. In addition, and over the longer term when considering the Future for Local Government, it may be appropriate to consider whether the best outcomes are being achieved for this level of investment.

Invercargill City holds the contract with SdE, and then provides services to Southland District Council. The contract with Southland District is a fixed price contract; in its current form it does not include any additional charges for load contamination. Contamination in our kerbside collection is high and the contract with Southland District Council will also need to be renegotiated to better reflect the cost of waste disposal from their share of recycling.

Should there be any changes in how the recycling programme operates (type of products recycled and method of collection) this will have a direct impact on the cost of the contract. The flexibility to alter the contract to accommodate such changes would need to be accommodated within the contract.

The Long Term Plan increased the budget to the current base contract to recognise the higher contamination costs being experienced (\$1.95 million in total).

Council has delegated financial authority to the Chief Executive for establishing contracts such as this, provided the contract amount sits within the annual budget.

## OPTIONS

Option 1: Go to market now	This option is not preferred. Council has not done the necessary preparation work described above. Government's policy position has not yet been determined, and it is anticipated this will have key impacts on required services in the medium to long term. There would not be time for Council and the community to gain clarity and alignment on desired outcomes.
Option 2: Roll over existing contract for 24 months	This option is not preferred – 24 months is insufficient time to allow for better engagement with our local and wider community and to have a better understanding of Government policy in this evolving area. A better overall outcome

	<p>would be expected with the additional time to determine the recycling service preferred and the market options available</p> <p>Also 24 months would not provide sufficient time to on-board any new supplier or processes (with the necessary education of the public).</p> <p>This option may be the second preference depending upon contract price.</p>
Option 3: Renegotiate contract for 36 months	<p>This is the preferred option. This provides the time for Council to engage with the community to gain clarity and alignment on desired outcomes. Officers would have the opportunity to undertake the Better Business Case process, and Government should have determined its policy position.</p> <p>This is dependent upon the contract price being within an acceptable range to Council for the service delivered.</p>
Option 4: Roll over existing contract for 1 year + 1 year+ 1 year	<p>This option is not preferred as it would not provide sufficient certainty to either SdE or Council. It could also see significant uplift in contract price at the end of each year.</p>

## SIGNIFICANCE

This issue is not considered to be significant under Council's Significance and Engagement Policy, however the matter of how waste and recycling is handled and the achievement of social good in that process is of interest to many ratepayers. It is not proposed to engage on any contract extension, rather to put effort into engagement to ensure clarity and alignment between Council and its community for the longer term solution.

## OTHER

With the increase in the waste levy, as set by Government, waste disposal costs will also increase. This is likely to increase householders' desire to recycle but may bring additional waste disposal costs for contaminated recycling product. This would increase costs further to ratepayers.

## LEGALS

Council currently receives waste minimisation funding from MFE. This funding is dependent on ICC having an appropriate Waste Management and Minimisation Plan in place. This plan is currently held for ICC by WasteNet Southland. The plan received minimal updating when last reviewed on the basis that a full review would be completed once the outcomes of the national waste strategy and associated policy development was complete. The above business case approach is recommended to be run in parallel with this plan review.

## **RECOMMENDED APPROACH**

To ensure continuity of recycle processing Council must either:

1. Enter into a new Contract for Recycle processing prior to 31 December 2021; or
2. Extend the existing recycle processing contract.

It is recommended that Council negotiate a 36 month extension to the existing contract with Southland DisAbility Enterprises. In determining the recommended approach the following factors have been considered:

- a) The Central Government waste strategy development and legislative review that are underway are likely to impact what recycle processing services Invercargill will need in the medium to long term. Significant change in the recycle processing streams are likely as a result.
- b) Approximately 18 months would be required to move through the Better Business Case, Section 17A review, contract development and procurement/award of a new service contract.
- c) Changes to recycle process requirements that require operators to invest in new plant, systems, processes or people should provide for a minimum transition period of six months from contract award to commencement of the new contract for service.
- d) Standardising kerbside collections has the potential to significantly improve the economics of operating a material recovery facility by reducing contamination and reducing the amount of sorting required. Contract pricing following standardisation is expected to see key savings in this area but requires significant community education and long lead times.
- e) Finally, this approach provides time for the new contract management team to mature in the waste space and work with SdE to agree reasonable expectations, and for a fair and considered picture of SdE as a potential long term partner to evolve.

## **CONCLUSION**

The Waste Minimisation Act 2008 was introduced to encourage waste minimisation in New Zealand. Under the Act territorial authorities are responsible for promoting effective and efficient waste management and minimisation practices.

Council's 18 month Recyclables Acceptance Contract comes to an end on 31 December 2021. A 36 month extension to the existing recycle processing contract with Southland DisAbility Enterprises has been recommended to allow time for central government to complete a number of key initiatives expected to impact on waste and recycling services and ensure Council is investing in the right waste minimisation outcomes for the region.